APPENDIX B

APPENDIX

89TH CONGRESS—2D SESSION

H. R. 15942

IN THE HOUSE OF REPRESENTATIVES

June 27, 1966

Mr. MILLS introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To impose a tax on unrelated debt-financed income of tax exempt organizations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 511 (a) (2) (A) of the Internal Revenue Code of 1954 (relating to organizations subject to the tax on unrelated business income) is amended to read as follows:

"(A) ORGANIZATIONS DESCRIBED IN SECTIONS 401 (a) AND 501 (c).—The taxes imposed by paragraph (1) shall apply in the case of any organization (other than a trust described in subsection (b)) which is exempt, except as provided in this part, from taxation under this subtitle by reason of section 401 (a) or section 501 (c)."

SEC. 2. Section 512 of such Code (relating to definition of unrelated business taxable income) is amended—

(a) by redesignating subsections (b) and (c) as subsections (d) and (e) respectively;

(b) by striking out paragraph (4) (relating to business leases) of the new subsection (d);

(c) by striking out in the new subsection (e) (relating to special rules applicable to partnerships) the phrase "subsection (b)" and inserting in lieu thereof "subsection (d)"; and

(d) by striking out so much of such section 512 as precedes paragraph (1) of the former subsection (b) (redesignated above as subsection (d)) and inserting in lieu thereof the following:

"SEC. 512. UNRELATED BUSINESS TAXABLE INCOME.

"(a) ORGANIZATIONS TAXED ON TWO CATEGORIES OF UNRELATED INCOME.—In the case of any organization (other than a church or a convention or association of churches) which is exempt, except as provided in this part, from taxation under this subtitle by reason of section 401 (a) or of paragraph (3), (5), (6), (14) (B) or (C), or (17) of section 501 (c), and in the case of any trust described in section 511 (b), and in the case of any college or university described in section 511 (a) (2) (B), the term 'unrelated business taxable income' means the sum of:

"(1) the gross income derived by it from any unrelated trade or business (as defined in section 513) regularly carried on by it, less the deductions allowed by this chapter which are directly connected with the carrying on of such trade or business, both computed with the exceptions, additions, and limitations provided in subsection (d), and

"(2) the amount of its unrelated debt-financed income (as computed under section 514).

Such definition of unrelated business taxable income shall also apply in the case of a corporation described in section 501 (c) (2) (relating to a corporation organized to hold title to property) if its income is payable to an organization described in the preceding sentence or to a church or to a convention or association of churches.

"(b) ORGANIZATIONS TAXED ONLY ON UNRELATED DEBT-FINANCED INCOME.—In the case of any organization exempt from taxation by reason of section 501 (c) and to which the definition in subsection (a) is not applicable, the

term 'unrelated business taxable income' means the amount of its unrelated debt-financed income (as computed under section 514).

"(c) FOREIGN ORGANIZATIONS.—In the case of an organization described in section 511 which is a foreign organization, the unrelated business taxable income (under subsection (a) or (b), whichever is applicable) shall be its unrelated business taxable income derived from sources within the United States determined under subchapter N (section 861 and following, relating to tax based on income from sources within or without the United States).

"(d) EXCEPTIONS, ADDITIONS, AND LIMITATIONS.—The following exceptions, additions, and limitations are applicable in determining under subsection (a) (1) the gross income and deductions attributable to an unrelated trade or business:".

SEC. 3. Section 514 of such Code (relating to business leases) is amended—

(a) by redesignating subsections (b), (c), and (d) as subsections (g), (h), and (i) respectively;

(b) by striking out, in paragraph (1) of the new subsection (g), the phrase "subsection (c)" and inserting in lieu thereof "subsection (h)";

(c) by striking out, in paragraph (1) of the new subsection (h), the words "the unpaid amount of—" and inserting in lieu thereof "the unpaid amount of the indebtedness incurred by the lessor before June 28, 1966, which is—"; and

(d) by striking out so much of such section 514 as precedes the former subsection (b) (redesignated above as subsection (g)) and inserting in lieu thereof the following:

"SEC. 514. UNRELATED DEBT-FINANCED INCOME.

"(a) DEFINITION.—For purposes of section 512 the term 'unrelated debt-financed income' means the aggregate of the amounts of gross income taken into account during the taxable year under subsection (b) with respect to debt-financed property owned by the organization, less the aggregate of the amounts of the deductions taken into account under subsection (c) on account of such property.

"(b) PERCENTAGE OF INCOME TAKEN INTO ACCOUNT.—In computing unrelated debt-financed income there shall be included and taken into account with respect to each debt-financed property owned by the organization during the taxable year an amount which is the same percentage (but not in excess of 100 percent) of the total gross income derived during the taxable year from or on account of such property as (1) the average acquisition indebtedness for the taxable year with respect to the property is of (2) the adjusted basis of such property at the close of the taxable year. If the property is disposed of during the taxable year, then the adjusted basis shall be so determined as of the time of disposition. If the property was acquired in a distribution by a corporation with respect to its stock, the basis of the property, for the purposes of this subsection and paragraph (2) of subsection (c), shall be the same as it would be in the hands of the transferor corporation, increased by the amount of grain recognized to the transferor corporation upon such distribution and by the amount of any gain to the organization which was included, on account of such distribution, in its unrelated debt-financed income.

"(c) PERCENTAGE OF DEDUCTIONS TAKEN INTO ACCOUNT.—There shall be allowed with respect to each debt-financed property, as a deduction to be taken into account in computing unrelated debt-financed income, an amount determined by applying the percentage derived under subsection (b) to the sum of the deductions allowed by this chapter

which are directly connected with the debt-financed property or the income therefrom, except that such deductions shall be computed with the following exceptions, additions, and limitations:

"(1) No deduction shall be allowed under sections 243, 244, and 245 (relating to dividends received by corporations).

"(2) If the debt-financed property is of a character which is subject to the allowance for depreciation provided in section 167, the allowance for exhaustion, wear and tear shall be computed only by use of the straight line method.

"(3) The net operating loss deduction provided in section 172 shall be computed in the manner provided in paragraph (6) of section 512 (d), and the deduction allowed by section 170 (relating to charitable, etc., contributions and gifts) shall be computed in accordance with the provisions of paragraph (10) or (11) of section 512 (d), whichever is applicable, but a double deduction in computing unrelated business taxable income shall in no case be allowed.

"(4) There shall be allowed a specific deduction of $1,000 less the amount deducted by the organization under paragraph (12) of section 512 (d).

"(d) DEFINITION OF DEBT-FINANCED PROPERTY.—The term 'debt-financed property' means any property which is held to produce income and with respect to which there is an acquisition indebtedness (as defined in subsection (e)) at any time during the taxable year (or, if the property was disposed of during the taxable year, with respect to which there was an acquisition indebtedness at any time during the 12-month period ending with the date of such disposition), except that such term does not include—

"(1) any property all the use of which is related (aside from the need of the organization for income

or funds) to the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption under section 501 (or, in the case of an organization described in section 511 (a) (2) (B), to the exercise or performance of any purpose or function designated in section 501 (c) (3));

"(2) any property all the income from which is taken into account in computing the gross income of any unrelated trade or business, if section 512 (a) is applicable for the taxable year to the organization;

"(3) any property all the income from which is excluded by reason of the provisions of paragraph (7), (8), or (9) of section 512 (d) in computing the gross income of any unrelated trade or business (or would be excluded by such provisions if section 512 (a) were applicable to the organization); or

"(4) any property all the use of which is in any trade or business described in paragraph (1), (2), or (3) of section 513 (a).

"(e) ACQUISITION INDEBTEDNESS.—

"(1) GENERAL RULE.—The term 'acquisition indebtedness' means, with respect to any debt-financed property, the unpaid amount of—

"(A) the indebtedness incurred by the organization in acquiring or improving such property;

"(B) the indebtedness incurred before the acquisition or improvement of such property if such indebtedness would not have been incurred but for such acquisition and improvement; and

"(C) the indebtedness incurred after the acquisition or improvement of such property if such indebtedness would not have been incurred but for

such acquisition or improvement and the incurrence of such indebtedness was reasonably foreseeable at the time of such acquisition or improvement, except that in the case of any taxable year beginning before January 1, 1972, any indebtedness incurred prior to June 28, 1966, shall not be taken into account unless the following sentence is applicable. In the case of a taxable year beginning before January 1, 1972, of an organization to which subsection (a) of section 512 is applicable, the term 'acquisition indebtedness' also includes, with respect to real property subject to a business lease (as defined in subsection (g)), any indebtedness incurred before June 28, 1966, if such indebtedness constitutes business lease indebtedness (as defined in subsection (h)).

"(2) PROPERTY ACQUIRED SUBJECT TO MORTGAGE, ETC.—Where property (no matter how acquired) is acquired subject to a mortgage or other similar lien, the amount of the indebtedness secured by such mortgage or lien shall be considered as an indebtedness of the organization incurred in acquiring such property even though the organization did not assume or agree to pay such indebtedness.

"(3) EXTENSION OF OBLIGATIONS.—An extension, renewal, or refinancing of an obligation evidencing a preexisting indebtedness shall not be treated, for the purposes of this section, as the creation of a new indebtedness.

"(4) AVERAGE ACQUISITION INDEBTEDNESS.—The term 'average acquisition indebtedness' for any taxable year with respect to a debt-financed property means the average amount, determined under regulations prescribed by the Secretary or his delegate, of the acquisition indebtedness during the period the property is held by the organization during the taxable year, except that for the purpose of computing the

percentage of any gain or loss to be taken into account on a sale or other disposition of debt-financed property, such term means the highest amount of the acquisition indebtedness with respect to such property during the 12-month period ending with the date of the sale or other disposition.

"(f) ALLOCATION RULES.—

"(1) RELATED INCOME FROM PORTION OF PROPERTY.—Where a portion of debt-financed property is held solely for uses, or solely to produce income, described in paragraph (1), (2), (3), or (4) of subsection (d), proper allocation of the adjusted basis of the entire property and of the indebtedness with respect to the entire property shall be made to such portion. The amounts so allocated shall be excluded, for the purposes of this section, in computing the adjusted basis and the acquisition indebtedness of the debt-financed property.

"(2) MULTIPLE USE OF SAME PROPERTY.—If debt-financed property is partially devoted to a use described in paragraph (1) or (4) of subsection (d), or produces some income described in paragraph (2) or (3) of subsection (d), the income and deductions attributable to such use, and the income described in such paragraph (2) or (3) and deductions properly allocable thereto, shall be excluded under subsections (b) and (c) in computing the unrelated debt-financed income from such property.

"(3) REGULATIONS.—The allocations and exclusions provided for in paragraphs (1) and (2) shall be made in accordance with regulations prescribed by the Secretary or his delegate."

SEC. 4. Section 681 (a) of such Code (relating to limitation on charitable deduction of taxable trusts) is amended by striking out the words "certain leases" and inserting

in lieu thereof "certain property acquired with borrowed funds".

SEC. 5. The amendments made by this Act shall apply to taxable years ending after the date of the enactment of this Act, except that—

(a) income received or accrued on or before such date of enactment and related deductions shall be taken into account in computing unrelated business taxable income only to the extent they would have been taken into account without regard to the amendments made by this Act; and

(b) in the case of a taxable year beginning before but ending after the date of the enactment of this Act, income and deductions with respect to a business lease (as defined in section 514 of such Code) shall be taken into account in computing unrelated business taxable income without regard to the amendments made by this Act.

Statement of Hon. Stanley S. Surrey, Assistant Secretary of the Treasury; Accompanied by Jerome Kurtz, Tax Legislative Counsel; and Thomas A. Troyer, Attorney, Office of Tax Legislative Counsel

Mr. SURREY. Thank you, Mr. Chairman.

I have with me Mr. Kurtz and Mr. Troyer of my office. I appreciate the opportunity to appear before your committee to explain the views of the Treasury Department on H.R. 15942 and H.R. 15943. These two bills, which are identical, relate to a group of problems which have been of serious concern to Congress before—the problems generated when tax-exempt organizations borrow money for purposes unrelated to their exempt functions.

Those problems were considerably intensified last year by the decision of the Supreme Court in *Commissioner v. Clay B. Brown.*

For several reasons, the Treasury Department strongly supports these bills, which Chairman Mills and Mr. Byrnes have introduced.

I might say that these bills came about as a result of a study conducted jointly by the staff of the joint committee and the Treasury technical staff and this study was one requested by the chairman and Mr. Byrnes last year.

To make clear the grounds for our support, let me first describe the *Brown* case briefly and outline the exempt organization problems which it highlights. With that background, I can then explain how the proposed bills work and why it is our view that, in their continuation of an approach adopted by Congress in 1950 to deal with one form of exempt organization, investment borrowing, they would resolve these problems effectively and fairly, and without impeding the legitimate functions of the organizations to which Congress has accorded the privilege of tax exemption.

To go to the *Brown* case, that involved a situation in which an exempt organization acquired a sawmill and lumber business by agreeing to pay the former owners a percentage of the future profits of the business until a specified maximum amount had been reached.

Making no commitment for payment other than from the assets of the transferred business itself and the income produced by those assets, the exempt organization obtained the business—valued at $1,300,000—without any investment of its own funds.

Careful steps were taken to immunize the earnings of the enterprise from the present tax on unrelated business income. The question before the Supreme Court was the tax treatment of the former owners of the business; the exemption of the organization was not in issue. With three Justices dissenting, the Court held that the former owners were entitled to treat their profits on the transaction as capital gains.

Alarmed by the implications of the decision, the dissenting opinion pointed out that—

> In any realistic sense the Government's grant of a tax exemption was used by the (exempt purchaser) as part of an arrangement that allowed it to buy a business that in fact cost it nothing. I cannot believe that Congress intended such a result. * * * Unless Congress repairs the damage done by the Court's holding, I should think that charities will soon own a considerable number of closed corporations, the owners of which will see no good reason to continue paying taxes at ordinary income rates. * * * The tax avoidance routes opened by the Court's opinion will surely be used to advantage by the owners of closed corporations and other income-producing assets in order to evade ordinary income taxes and pay at capital gain rates, with a resultant large-scale ownership of private businesses by tax-exempt organizations.

The majority and concurring Justices also referred to the area as one for congressional action.

Turning to the unfortunate consequences of exempt organization investment borrowing, the availability of the tax exemption for use in transactions following the *Brown* pattern, and in other arrangements involving borrowing for investment purposes, has three very unfortunate consequences.

Incentive for shift of productive property to exempt sector: First, in any acquisition in which the purchase price is to be financed from the future earnings of the transferred property, tax-exempt organizations are peculiarly suited to pay a substantially higher price—and pay it more rapidly—than a taxable purchaser could afford.

They can, in effect, make available to the seller the additional business earnings which would have been paid

to the Government as taxes had the purchaser been taxable. The particular advantage of exempt organizations as purchasers in transactions of this sort has for some time been widely advertised in the tax and business press, and since the *Brown* decison such advertising has intensified.

Several examples are attached to this statement. I draw your attention particularly to a page of the Prentice-Hall Executives' Tax Report entitled "Boosting Profits."

Asking "Have You Put a Price on Your Business?" the announcement provides an arresting and enticing answer: "You May Be Able To Double It — By Selling to a Charity."

With the due attractions to sellers of higher prices and Supreme Court approved capital gains treatment, it seems quite likely that, unless something is done, a substantial unplanned shift of productive property to the exempt sector of our economy will occur.

One result of such a shift would, clearly, be very considerable erosion of the income tax base. Another might well be broad economic and social changes stemming from the ownership of a large number of businesses by organizations with different motives and different objectives than the entrepreneurs who have thus far constituted our business community.

Diversion of exemption benefit to private parties: A second undesirable result typically attends borrowing by exempt organizations for investment purposes. The price inflation characteristic of Brown-type transactions and common in other exempt organization borrowing situations deflects, to the personal benefit of private parties, a substantial portion of the advantage which Congress intended tax exemption to produce for the organizations upon which it conferred that exemption.

When sellers obtain the increase in purchase price made possible by the tax exemption of future earnings, they

draw a significant share of the advantage of the exemption to themselves. In effect, the purchasing organization trades temporary use of its exemption for the opportunity to own the property completely in the future.

This result has commonly been described as the organization's "selling its exemption."

Exempt organization expansion from within: A third unfortunate consequence follows from exempt organization investment borrowing. This investment borrowing enables an exempt organization to convert its tax exemption into a self-sufficient device for the production of capital.

By borrowing, the organization can extend the function of its exemption beyond the protection of income stemming from charitable contributions or membership fees; it can use the exemption to develop funds even where there are no contributions or membership fees.

Commentators have referred to this activity as "trading upon" or "capitalizing" the tax exemption. The organization which makes such use of its exemption can sever itself from reliance upon contributors or members and eliminate the healthful scrutiny of its purposes and activities which that reliance implies.

By this extension of its exemption privilege to borrowed assets and this separation from dependence upon contributors or members, the organization begins a multiplication of its holdings which bears no relation to the community's evaluation of its exempt activities; it embarks upon an extension of its economic holdings which is limited only by the financial acumen and commercial skills of its managers.

An organization involved several years ago in Tax Court litigation, for example, began with a net worth of $1,000 and—by means of borrowing—within 5 years had increased its holdings to include a 34-acre tract of industrial real property worth $1,150,000.

Another organization, formed in 1954 with no funds of its own at all, entered upon a program of investing in oil payments with borrowed money. By 1961 the organization had incurred indebtedness of more than $14 million, and had net income of almost $70,000 a year.

Remarkable as they are, these situations are by no means atypical illustrations of the consequences of unrestricted exempt organization borrowing for investment purposes.

Previous congressional action: In 1950 Congress recognized the impropriety and danger inherent in such exploitation of the tax-exemption privilege. Concerned with a proliferation of situations in which exempt organizations were purchasing commercial property, leasing it back to the original owners, and utilizing future rents from the property to pay the purchase loan, both this committee and the Senate Finance Committee stated that, and this is a quotation from the committee report:

> (One) objection to the lease-back is that it is altogether conceivable that if its use is not checked, exempt organizations in the not-too-distant future may own the great bulk of the commercial and industrial real estate in the country. This, of course, would lower drastically the rental income included in the corporate and individual income tax bases. The fact that under present law an exempt institution need not use any of its own funds in acquiring property through lease-backs—borrowed funds may represent 100 percent of the purchase price—indicates that there is no limit to the property an exempt institution may acquire in this manner. Such acquisitions are not in any way limited by the funds available for investment on the part of the exempt institution. This explains why particular attention should be given to lease-backs which involve the use of borrowed funds. Where an exempt organization uses its own funds, expansion of its property holdings through the lease-back device must

necessarily proceed at a much slower pace. (H. Rep. No. 2319, 81st Cong., 2d Sess. 39 (1950), 1950-2 Cum. Bull. 410; S. Rep. No. 2375, 81st Cong., 2d Sess. 31 (1950), 1950-2 Cum. Bull. 506.)

To deal with the problem, the Revenue Act of 1950 provided, generally, for taxation of a portion of the rent which certain types of exempt organizations receive from property acquired with borrowed funds.

The fundamental approach of this provision (which has continued without material change as sec. 514 of the present Internal Revenue Code) was a simple and sound one: Tax exemption should be restricted to earnings arising from the exempt entity's own assets, so as to eliminate the abuses and artificial incentives attendant upon exemption of income produced by borrowed funds.

Despite the essential soundness of its policy, the form which the 1950 act took has proved to contain several defects. Because the provision was engrafted upon legislation which had the rather different objective of taxing the business activities of exempt organizations—whether the organization owned them outright or not—it was made applicable only to those classes of organizations which Congress thought to be then significantly involved in business. As a result, it imposes no restraint whatever upon the abuses which arise when other kinds of exempt organizations borrow to invest.

Again, because the measure was drafted to cope with the particular variety of investment borrowing specifically drawn to the attention of Congress in 1950—the leaseback—it was made applicable only to rental income. It thus affords no solution to the same fundamental problems which exist where the income produced by borrowed funds is realized in the form of royalties, dividends, interest, or capital gains.

Finally, even in the area to which it does apply—even, that is, where the exempt organization is in one of the classes covered by the legislation and where its investment is in rental property—the 1950 act has been crippled by the presence of an exception which permits rents from leases whose terms are not longer than 5 years to be received without tax.

Tax planners have taken full and repeated advantage of these deficiencies of the 1950 legislation. The situation involved in the *Brown* case typifies a growing body of transactions in which exempt organization have fashioned their acquistions of productive property to avoid the impact of the provision.

Indeed, even before the announcement of the Supreme Court decision in *Brown,* more than 30 similar cases—in which, for one reason or another, the tax imposed under the 1950 act was, or was claimed to be, inapplicable—were pending before the courts or the Internal Revenue Service.

With the impetus added by Supreme Court approval of capital gains treatment for the sellers, the already well-traveled avenues around the 1950 act can be expected to become thoroughfares.

Turning to the proposed bills, which, as I say, are the product of a joint study by the staff of the joint committee and the Treasury staff, the proposed bills continue the basic approach of the 1950 provision, but eliminate the deficiencies which experience has demonstrated that provision to possess.

The bills impose income tax upon the "unrelated debt financed income" of all exempt organizations described in sections 401(a) and 501(c) of the Internal Revenue Code. Under the bills, income would be subject to tax only if it meets two tests: it would have to be derived from property acquired or improved with borrowed funds, and its production would have to be "unrelated" to the educational,

charitable, religious, or other operations constituting the basis of the organization's tax exemption.

Income produced by investments of an organization's own funds would be unaffected by the bills. Further, borrowing by an exempt organization for its exempt purposes—for example, borrowing by a college to build a dormitory—would fall beyond the scope of the proposals.

The taxable portion of the unrelated income from any particular property would, in general, be the amount bearing the same ratio to the total income from the property as the amount of the average indebtedness for the year bears to the basis of the property at the end of the year.

Deductions would be limited by the same percentage figure. Certain special rules would be employed to prevent avoidance of the tax by shifting deductions from years in which indebtdness is largely or completely discharged to earlier years in which it is high. Depreciation, for example, would be limited to the straight-line method.

Generally, during the next 5 years the new rules would apply only where indebtedness has been incurred after the date of the bills' introduction (June 27, 1966) and only to income received after the date of enactment.

The 5-year transition period would afford organizations with previously initiated unrelated borrowing an opportunity to prevent or minimize tax under the new rules by disposing of their acquisitions for fair value, by discharging indebtedness in full with exempt income or other assets, or at least by reducing the amount of outstanding indebtedness.

After the transition period, the new rules would become applicable to all situations of exempt organization investment borrowing.

There is a more detailed explanation of the mechanics of the bill attached.

To eliminate any possible misunderstanding, I should like to make very plain what the proposed bills do not do.

First, they do not have any effect upo nthe exempt organization which invests only its own funds. They apply only to the organization which borrows—the organization which is earning money with someone else's funds.

Second, they have no effect upon the organization which borrows in pursuance of its exempt activities. Only the production of income unrelated to those activities results in tax.

Third, the bills do not change the rules which Congress enacted in 1950 for the taxation of businesses owned outright by exempt organizations. Those rules, with their present exceptions and exclusions, would remain as they are.

Finally, the bills do not single out any one kind of exempt organization and impose a special tax upon it. They apply equally to all categories of organizations exempted under the general exemption section of the Internal Revenue Code.

In passing, I should like to point out also that the bills do not deal with the Supreme Court's grant of capital gains treatment to the sellers in transactions of the *Brown* type.

While extension of capital gains privileges to transfers of the *Brown* pattern may lead to abuses beyond the exempt organization field, the *Brown* transfer has sufficient elements in common with some kinds of ordinary commercial transactions to make it important that care be taken in any legislative withdrawal of capital gains treatment.

Further, the overwhelming majority of transfers in the *Brown* mold have thus far been to exempt organizations, and it may well be that, as a practical matter, adoption of the present bills would obviate the necessity of dealing with the capital gains issue.

In view of those facts, and in view of the urgency of attention to the exempt organization problems arising under

the *Brown* decision, we have concluded that it would be best to now deal with the primary problem area—the abuses and pressures produced by exempt organization investment borrowing—and to subject the future experience of the Internal Revenue Service and the development of the case law to continuing careful scrutiny to determine whether the capital gains problems possess sufficient practical importance to warrant legislative action.

In closing, let me emphasize that the present fortuitous, but very powerful, incentive for the transfer of businesses and other classes of productive property to exempt organizations requires effective and prompt congressional action.

As I have mentioned, even before the *Brown* decision gave Supreme Court sanction to the capital gains treatment claimed by the sellers in such arrangements, a considerable number of these transfers had occurred.

If Congress does not deal with the problem—and deal with it quickly—a great many more will take place. We have, for example, been informed that even in the brief span since the Supreme Court decision one organization has managed to acquire seven separate businesses.

Advertisements by exempt organizations in the Wall Street Journal (copies of several of which are appended to this statement) afford another indication of what will come.

The proposed bills employ an approach which Congress has already approved in dealing with problems of this character. It is an approach which would have no effect at all upon exempt organizations limiting themselves to use of their own funds—or even of borrowed funds related to their exempt activities—and which does no more than place those organizations borrowing for unrelated investment purposes upon the same tax ground as other taxpayers.

Because the need for legislation here is great and the proposed bills are effective, fair, and moderate, the Treasury Department strongly recommends that the Ways and Means Committee approve them.